



University
of
St Andrews

**Financial Operating Procedure
Sustainable & Responsible Investing**

January 2014

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1. Background

This procedure is mandatory and applies to all staff. It operates in support of the University Ordinances and the Standing Financial Instructions which are set by the University Court.

This procedure applies to the investment and use of endowment funds which have been permanently endowed to the University for both specific and general purposes. Funds donated towards capital projects and funds donated on an expendable basis are excluded as these are covered within the University's general Treasury Management Policy. The procedure is split into two main parts; Part 1 is outlined in sections 2 to 9 and relates to the investment approach to be followed, Part 2 is outlined in section 10 and relates to the use of these funds.

2. Investment Policy - Background

The University Court of the University of St Andrews holds a modest amount of Endowment Assets. These funds have largely been provided for specific purposes such as scholarships and prizes. This section of the Financial Operating Procedure sets out the investment policy for these assets. This investment policy is subject to regular review by the Investment & Treasury Assurance Group on behalf of the University Court.

The University has previously adopted a traditional arms length approach to investment managers placing discretion and responsibility in all matters associated with individual stock selection to its appointed investment managers while placing reliance on those managers Socially Responsible Investment Policies. Following engagement with the student body the University accepts that in making investment decisions the University should have regard to the promotion of sustainable and socially responsible behaviours. This policy has been developed in partnership with the active student body with the intention of moving the investment policy to one in which sustainable and ethical issues are taken into account alongside financial issues by investment managers in individual stock selection issues.

Responsibility for governance of these arrangements rests with the University Court which it discharges by way of the Audit & Risk Committee.

3. Needs of the Funds

The primary purpose that the University Court needs to support is the generation of sufficient revenue to meet the specific purposes for which the funding was given to the University. The specific funds largely provide for three main core areas of spending – support for specific academic chairs, provisions of scholarships and bursaries and a group of other specific funds which include, book and prize funds, travel bursaries and other causes.

The University seeks to protect the real long term value of its Funds against inflation as measured by the UK Retail Price Index (UK RPI). In addition to maintenance of this real terms value, the Fund must generate a return to meet the ongoing needs of the intended beneficiaries of the Funds i.e. students in receipt of scholarships. Based on the needs of students, this requirement is approximately 4% of the fund value per annum.

Consequently, the University’s investment policy aim is to achieve a long term annual rate of return of RPI + 4%. The above inflation amount reflects the needs of the beneficiaries of the Endowment funds for funding. It is the responsibility of management to monitor this required level of return relative to UK RPI and taking account of both the needs of the beneficiaries and the ability of the funds to sustain such levels of return, and to subsequently manage arrangements to ensure that appropriate needs of beneficiaries are met while maintaining the real terms value of the funds.

4. Authority to Invest

The University Court derives its authority to invest funds from Ordinance No. 119 ‘Additional Regulations as to the administration and finances of the University’ which provides for wide ranging powers to enter into financial transactions and arrangements.

The University Court is also content to place reliance on a report commissioned by the United Nations Environment Programme’s Finance Initiative (UNEP FI). This report considered investment decisions reflecting environmental, social and governance issues from legal firm Freshfields Bruckhaus Deringer. The University is satisfied that this report indicates that it is entitled to take into account wider issues which are aligned with the interests of the funds stakeholders, as long as the approach to investment continues to involve a high degree of professional expertise and there is diversification in the asset base taking into account due regard for items of risk and return.

5. Asset Allocation Strategy

The policy is to invest permanently endowed funds in a portfolio of assets which may comprise equities, fixed income investments, exchange-traded equity options, exchange –traded derivatives, forward currency contracts, warrants, investments in collective investment schemes and cash and near cash.

Fund Managers are required to manage the assets of the Fund in accordance with the agreed sustainable investment processes outlined below and the following guidelines:

Investment	Min	Max
Global equities	50%	100%
Fixed income	0%	25%
Options hedge*	0%	25%
Cash	0%	50%

* value based on the underlying notional exposure and may only be held for hedging or efficient portfolio management purposes. Off-exchange traded equity options will not be permitted.

Cash – Donations collected from donors may be held in the University’s bank account until such time as they are passed onto Fund Managers. During this time, interest will be applied to the endowment funds at a commercial rate.

Property – Two endowment properties are held in trust by the University and are utilised in line with the donors wishes.

Ransome Scholarship Fund – A separately managed fund denominated in US dollars is used to fund a specific scholarship scheme in line with donor’s wishes.

6. Investment Criteria

The University believes that in investing its funds, regard must be made to social, environmental and governance issues. In line with its general strategic direction, the University believes that its investments should mirror its own desire to be sustainable and promote sustainability. In order to publicly demonstrate this commitment, the University has become a signatory member of the United Nations Principles of Responsible Investment (UNPRI) initiative. Appointed asset managers are therefore expected to encourage good behaviour or discourage poor behaviour through screening of investments, either positively or negatively or through direct engagement with firms. They must also be signed members of the UNPRI scheme. In making investment decisions the University expects its appointed managers to consider, the following areas (this list should not be considered as exhaustive;

- Promotion of human rights, including but not limited to the equality of gender, race and sexuality;
- Promotion of good business ethics and good employment practices;
- Protection of the global environment, its climate and its biodiversity;
- Promotion of community investment;
- Promotion of international co-operation and an end to international conflict including a prohibition of companies which produce armaments;
- Sustainable provision and procurement of essential resources and services (utilities for example);
- Prohibition of companies which test on animals purely for cosmetic purposes.

While operating within these criteria, appointed investment managers are left at their discretion to select individual stocks and to operate within their own Socially Responsible Investment Policy. The appointed manager will be accountable to the University in terms of financial performance and adherence to commitments made on issues of social responsibility and sustainability. The appointed manager will also be expected to discuss issues around social responsibility and sustainability with the investments advisory committee.

The University shall seek enforcement of the ESG elements of this policy through the investment practice of its appointed Investment Managers.

7. Investment Manager(s)

The University has two fund managers who manage the permanently endowed funds, as outlined in section 5 above.

Alliance Trust Investments

UBS

8. Fund Performance

Investment manager(s) are expected to report to the Investment & Treasury Assurance Group in writing and in person periodically in line with the needs of the Committee.

Investment manager(s) will provide monthly valuation data to the finance department in good time for inclusion in the monthly accounts preparation process.

Investment manager(s) shall communicate quarterly with the Investment & Treasury Assurance Group in relation to the investment criteria and stock selections.

- a. **Investment Returns** – Investment Manager(s) will provide a quarterly report outlining the performance of their University portfolio compared against the agreed benchmark for that quarter, the previous 12 months and the previous 3 and 5 years or since appointment (as appropriate).
- b. **Investment Criteria** – Investment Manager(s) will provide quarterly reports outlining their stock selection decisions in relation to the Investment Criteria agreed with them on appointment and as summarised in this policy.

Investment manager(s) will engage with the wider stakeholder group (including students, staff and donors) on a biennial basis at a public event to be held on the University's premises.

The University would expect any appointed investment manager to support the development of this policy in conjunction with the IATG, particularly with regard to transparency and definition of sustainability issues.

9. Ongoing donations

Ongoing donations are used in accordance with donor's wishes. Those gifts that are given to produce income to support general or specific income will be invested in support of the asset allocation strategy prevalent at the time, unless the donor makes specific requests around such investment, in which case the donor's wishes will be respected if practicable.

Those gifts that are given to be spent on a specific purpose will be done so as soon as practicably possible and within three years of giving. Those gifts that are given for the general benefit of the University will be used in the year of gift on purposes which will be determined by the University. Currently such income is used to support the provision of scholarships and bursaries for students.

10. Variation of terms

From time to time the original terms and conditions associated with some older endowments cannot be met. Ordinance 2009 No.3 'Regulation of Foundations, Mortifications, Gifts, Endowments and Bursaries Use of Surplus Revenue and Amendment of Endowments' provides the University with the authority to amend the use of such funds. In such circumstances the University may take steps to utilise the revenue from such funds for alternate purposes. The process for this action is outlined below;

10.1 Permanent variation of terms

This power may be exercised where the original terms of the endowment cannot be currently fulfilled and are unlikely to be fulfilled in the future. This could occur, for example, where the operations of the University are significantly altered such as when a particular study course is withdrawn.

10.1.1 This power may be exercised where the original terms of the endowment cannot be currently fulfilled and are unlikely to be fulfilled in the future. This could occur, for example, where the operations of the University are significantly altered such as when a particular study course is withdrawn.

10.1.2 Where the founder, patron, donor or other trustee of the relevant endowment fund is known to the University and is capable of expressing a view, the University will first consult him, her or them and give due weight to any view expressed in relation to how the terms are changed.

10.1.3 Where the founder, patron, donor or trustee cannot be contacted, the University will endeavour to ensure that any new terms will remain as true to the original intentions as is possible. For example:

- Funds endowed for scholarship purposes will continue to be used to fund scholarships;
- Funds specifically intended for Scottish or UK students will continue to be used to fund students from those areas;
- Funds designed to subsidise students on a particular course may be re-designated to a different course within the same School.

10.1.4 Any proposed change to the terms of a permanent endowment fund will be formally submitted to Court and cannot be carried out unless approved to do so by both the donor (which applicable) and Court.

10.2 Redeployment of excess income

10.2.1 Where, in any academic year the income generated by a restricted, permanent endowment fund exceeds the amount that can be reasonably utilised for the original intended purpose, the University may redeploy those funds for an alternative purpose subject to the conditions set out below.

10.2.2 Where the founder, patron, donor or other trustee of the relevant endowment fund is known to the University and is capable of expressing a view, the University will first consult him, her or them and give due weight to any view expressed in relation to how the excess funds are utilised.

10.2.3 Where the founder, patron, donor or trustee cannot be contacted, the University will endeavour to ensure that the redeployment of excess funds will remain as true to the original intentions as is possible. For example:

- Income generated for scholarship purposes will continue to be used to fund scholarships;
- Income specifically intended for Scottish or UK students will continue to be used to fund students from those areas;
- Income designed to subsidise students on a particular course may be re-designated to a different course within the same School.

10.2.4 Any proposed redeployment of income will be decided in conjunction with the Spend Controller of the endowment fund (normally the Head of School) and will be formally submitted to Court. No redeployment of income will be carried out unless approved to do so by the donor (which applicable), the Spend Controller and Court.

10.3 Responsibilities

10.3.1 The Development Office of the University are responsible for collating the contact details for individuals, trusts or other donors who have made permanently endowed donations to the University.

10.3.2 All reasonable efforts will be made by the Development Office to ensure that these details are kept secure and up to date.

University of St Andrews

Investment & Treasury Assurance Group

Membership and Remit

The parent Committee of the Investment & Treasury Advisory Group (IATG) is the Planning & Resources Committee. The primary purpose of the IATG is to ensure that appropriate and effective decisions are taken with regard to the investment and holding of all funds under the University's management with due regard to the University's investment policy and the management of risk.

Remit

1. Within the context of the general investment policy of the University, to monitor the performance of:

- (i) the University's investment and treasury advisers;
- (ii) the investment portfolio(s) or cash holdings under their management;
- (iii) any and all University investments and financial holdings not under the management of the investment advisers, and to advise Court and Planning & Resources Committee thereon.

2. To review the appointment of the University's investment and treasury advisers and to make changes to such appointments, reporting as appropriate to the Planning & Resources Committee.

3. To take decisions in relation to the general nature or distribution of the investment portfolio and holdings that are under management with due regard to the management of risk and the general investment policy of the University.

Members

Mr Mervyn Jones
Mr Robert Campbell
Mr Andy Goor

Until

2016

Status

Non-executive member of Court
Associate
Finance Director